

# Study of Competition in the Railroad Industry and Analysis of Proposals to Enhance Competition

## A Progress Report



**CHRISTENSEN**  
ASSOCIATES

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# Outline

- ❑ Background
- ❑ Project Team
- ❑ Project Requirements
- ❑ Project Timeline
- ❑ Progress Report

# Background

- ❑ *From GAO Report* – Are recent rate increases the result of capacity constraints or exercise of market power?
- ❑ As a follow up to the GAO study, the Board issued an RFP to
  - Study competition and captivity in the industry
  - Review and analyze various policy proposals
- ❑ The Christensen Associates team was selected to conduct an independent, rigorous study

# Christensen Associates

- ❑ Founded in 1976 - located in Madison, WI
- ❑ We employ about 55 economists, engineers, and market research specialists
  - Several affiliates with expertise in business, economics, finance, geography, engineering and market research
- ❑ We have extensive knowledge of numerous domestic and international industries including:
  - Transportation
  - Postal Service
  - Energy
  - Telecommunications

# Project Team

- ❑ We have reassembled the team that conducted seminal railroad cost and productivity analysis
  - Drs. Douglas Caves and Laurits Christensen of Christensen Associates
  - Dr. Joseph Swanson of Jos. Swanson & Co.
- ❑ Their research and methods are used to this day
- ❑ Other key team members
  - Dr. Wesley Wilson, University of Oregon
  - Dr. John Hudson, Northwestern University
  - Drs. Kelly Eakin and Mark Meitzen of Christensen Associates

# Requirements from Board's RFP

- ❑ Initial qualitative research phase
  - Stakeholder input
- ❑ Quantitative research
  - Develop quantitative research plan
  - Assessment of competition and capacity issues
  - Impact of competition and capacity constraints on service quality
  - Economic analysis of proposed policy reforms
- ❑ Preparation of Final Report

## Board RFP Task 2

### *Qualitative Research*

*[C]onduct in-depth interviews ...with shippers, railroad managers, academic experts, consultants, financial analysts, and key Government staff.  
...[A]ttention is to be focused on the importance of competition, capacity, and regulatory policy as drivers of the industry's performance.  
...Contractor shall include in its inquiries topics not limited to: (1) competition in the U.S. railroad industry both nationally and in selected geographic markets ...; (2) competition for grain, coal, chemical, general merchandise (boxcar) and inter-modal movements; and (3) the effects of competition and capacity availability on service quality.*

# Board RFP Task 3

## *Develop Quantitative Research Plan*

*Contractor will develop an appropriate analytical methodology to verify the results of its qualitative research. This methodology must employ techniques from industrial organization and econometrics best suited to verifying the information obtained in Task 2.*

## **Board RFP Task 4**

### *Competition and Capacity Assessment*

*Incorporating the information obtained in Task 2, and relying on the methodology chosen in Task 3, the Contractor will collect and analyze the data needed to complete the competition and capacity assessment.*

# Board RFP Task 5

## *Service Quality Analysis*

*The Contractor will examine how competition and capacity constraints influence the quality of service provided by rail carriers.*

## **Board RFP Task 6**

### *Economic Analysis of Policy Reforms*

*The Contractor will evaluate how the policy reforms suggested by GAO would affect the future financial health and stability of U.S. railroads and whether such proposals would stimulate or discourage private investments in the railroad industry.*

# Board RFP Task 7

## *Preparation of Final Report*

*The Contractor will prepare its final report by November 1, 2008.*

# Project Timeline

- ❑ Phase 1- Qualitative Research (Task 2)
  - Through January (and still continuing)
- ❑ Phase 2 - Quantitative Analysis (Tasks 3-6)
  - Now through Summer
- ❑ Phase 3 – Reporting (Task 7)
  - August through October

Final Report November 1, 2008

# Qualitative Research Use of Stakeholder Input

- ❑ Findings from qualitative phase of project useful in formulating empirical research questions
- ❑ We gained tremendous knowledge and insights
  - Details on the workings of the industry
  - Perspectives on what is “right” and what is “wrong”
  - Perspectives on policy issues
- ❑ We thoroughly considered all input received
  - Some outside the scope of project – useful for framing future research?

# Qualitative Research Stakeholder Input Process

- ❑ Input from various stakeholders, including
  - Shippers
  - Railroads
  - Industry analysts
  - Policy makers and regulators
  - Other interested parties
  
- ❑ Input obtained through various means
  - Almost 60 interviews (in-person and phone) to date
  - Electronic forum on our website
  - Written comments via e-mail

# Qualitative Analysis Stakeholder Input Process

- ❑ Designed an “open” process so that interested parties have access to us
  - “Advertisement” of study and stakeholder input process
  - Options for stakeholders to contact us
- ❑ It is not too late to provide input
  - Through the end of April and into May

# Study Website

[www.LRCA.com/railroadstudy](http://www.LRCA.com/railroadstudy)

- ❑ Allows project team to provide information to stakeholders about the study
- ❑ Allows stakeholders to provide information to the project team
  - Electronic forum and e-mail access to study team

# Advisory Panel Purposes

- ❑ Sounding board for
  - Our assessment of qualitative research
  - Specific research questions and methodological approaches
- ❑ Provide insights to research team
- ❑ Advisory Panel DOES NOT
  - Review or receive preliminary results or reports
  - Determine, endorse or necessarily agree with study approach or findings
  - Limit ability to provide comments as a stakeholder to research team

# Advisory Panel Composition

- ❑ Selected to be fairly representative of overall stakeholder groups. For example
  - Shippers include coal, grain, chemical, merchandise, forest products and intermodal
  - Large and small railroads
  - Investors
  - Government
  - Academics
- ❑ Complete list can be found on our website

# Quantitative Research General Approach

- ❑ Issues will be examined at appropriate levels of disaggregation
  - E.g., location, route, commodity
- ❑ We are in the process of assessing data availability
  - Determine ability to answer various research questions
  - Determine feasible level of disaggregation
- ❑ In addition to econometric/statistical analysis:
  - We will make liberal use of maps, charts, graphs
  - We may also make use of “case study” approach

# Quantitative Research Areas

## Assessment of Railroad Markets

- Market structure status and trends
  - Assessment of competitiveness of rail markets
    - Market concentration, market power
    - Vertical integration
  - Economically meaningful measures of captivity
    - Determine shipper “competitive status”
  - Performance implications
    - Rates, cost shifting, capacity, service quality

# Quantitative Research Areas

## Assessment of Railroad Markets

- ❑ Capacity utilization and investment behavior
  - Analysis of capacity adjustment process
  - Assessment of trends and near-term projections
  - Relationship to market structure
- ❑ Rate and cost shifting issues
  - Appropriate measures of rates and other shipper costs
  - Trends in contract usage
  - Extent of cost shifting and relation to rates
  - Relationship to competitive status, capacity

# Quantitative Research Areas

## Assessment of Railroad Markets

- ❑ Service quality issues
  - Appropriate measures
  - Analysis of trends
  - Relationship to competitive status, capacity utilization
- ❑ Network access issues
  - Analysis of trends
  - Relationship to competitive status, capacity utilization
  - Sharing of network rationalization efficiency gains

# Quantitative Research Areas

## Economic Analysis of Policy Proposals

- ❑ RFP requests analysis of reforms mentioned in GAO study
  - Reciprocal switching, terminal agreements, trackage rights, bottleneck rates, paper barriers
  - STB reforms
    - Increased use of simplified guidelines and arbitration
    - Develop alternative cost methodology
- ❑ Other candidates - investment tax credit

# Quantitative Research Areas

## Economic Analysis of Policy Proposals

- ❑ Economic analysis includes
  - Effect on economic efficiency
  - Measurement of distributional effects
  - RFP requests analysis of railroad profits, investment
- ❑ Our assignment is to evaluate existing proposals, NOT to recommend proposals
  - Measure economic effects without editorial comment
  - Provide meaningful information for policy debates

# Summary

- ❑ We are “on track”
- ❑ Invaluable assistance from stakeholder and Advisory Panel input
- ❑ We have begun empirical analysis
  - To continue through summer
- ❑ Our contract prevents us from sharing results prior to issuance of Final Report

# It is Not Too Late to Provide Your Input

- Go to [www.LRCA.com/railroadstudy](http://www.LRCA.com/railroadstudy)

OR

- Contact us directly @ 608.231.2266
  - Mark Meitzen ([mark@lrca.com](mailto:mark@lrca.com))
  - Kelly Eakin ([kelly@lrca.com](mailto:kelly@lrca.com))